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From 9/11 to 8/29: Post-Disaster Recovery and Rebuilding in New York and New Orleans

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This article examines the process of post-disaster recovery and rebuilding in New York City since 9/11 and in New Orleans since the Hurricane Katrina disaster (8/29). As destabilizing events, 9/11 and 8/29 forced a rethinking of the major categories, concepts and theories that long dominated disaster research. We analyze the form, trajectory and problems of reconstruction in the two cities with special emphasis on the implementation of the Community Development Block Grant program, the Liberty Zone and the Gulf Opportunity Zone, and tax-exempt private activity bonds to finance and promote reinvestment. Drawing on a variety of data sources, we show that New York and New Orleans have become important laboratories for entrepreneurial city and state governments seeking to use post-disaster rebuilding as an opportunity to push through far-reaching neoliberal policy reforms. The emphasis on using market-centered approaches for urban recovery and rebuilding in New York and New Orleans should be seen not as coherent or sustainable responses to urban disaster but rather as deeply contradictory restructuring strategies that are intensifying the problems they seek to remedy.

Introduction

The attacks on the World Trade Center in New York on Sept. 11, 2001 and the devastation caused by Hurricane Katrina in New Orleans on Aug. 29, 2005 have exposed the vulnerabilities of U.S. cities to sudden crises, and have generated intense discussion over the very meaning of urban "recovery." In the years since, scholars have debated the key challenges, public policy options and planning strategies for New York and New Orleans. The research focus has tended to be at the local scale, suggesting that patterns of successful post-disaster recovery depend on expanded economic resources for victims to reduce vulnerability and enhance resiliency; the re-establishment of social, political and cultural

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institutions; and the restoration of basic services including education facilities, hospitals and financial and transportation infrastructure (Cutter 2001; Blaikie, Cannon, Davis and Wisner 1994; Hartman and Squires 2006; Klinenberg 2002; Pelling 2003).

Missing from much of this literature is an examination of the big questions associated with disaster response, namely the broader political context in which strategies of recovery are implemented, and specifically, the debate over the relative merits of government-led vs. "market centered" approaches in the recovery effort. This is particularly relevant given the dramatic, private sector-oriented restructuring of disaster aid that occurred in the wake of 9/11 and 8/29 – including the devolution of responsibility from federal to local authorities, the outsourcing of key jobs to private contractors, the extent to which powerful business interests benefited from disaster aid, etc. – and the ongoing public debate this provoked (Leatherman, Laska, Kates and Colton 2006; Government Accountability Office 2003). Some have called for a more expansive welfare state and promoted the idea that only an activist government has the capacity to provide aid for communities to restore some level of normalcy and decency in the aftermath of large-scale disasters (Dreier 2006; Hartman and Squires 2006). Others have championed a minimalist government and argued that state officials should either adopt a laissez-fare approach or intervene on behalf of the private sector so as to make post-disaster rebuilding more flexible, efficient and cost-effective. Direct government outlays and grant programs, according to this interpretation, are wasteful and only encourage corruption by public bureaucracies (for an overview, see Peck 2006). The latter philosophy prevailed following 9/11 and 8/29, and had a profound impact. While emerging out of market-centered trends in disaster response and urban revitalization developed over the past 30 years, the response to these two most recent disasters, particularly in the "reconstruction" phase, represented a significant shift. Previously, some combination of direct outlay to needy populations and incentives to spur reinvestment was used; in the case of 9/11 and 8/29, tax breaks and private sector subsidies were the primary vehicle for channeling federal aid. This shift has played a major role in shaping the long-term priorities of recovery for New York and New Orleans, as well as set a precedent for other cities facing future crises. What is needed now is a sociological analysis of this emergent approach to disaster response, and a critical examination of how decisions following 9/11 affected New Orleans.

We examine the new market-centered orientation of urban disaster response through the lens of "neoliberalism." As originally promoted by economist Milton Friedman and Friedrich Hayek, and discussed by contemporary geographers and sociologists such as David Harvey (2005), Jason Hackworth (2007), and Neil Brenner and Nik Theodore (2002), among others, neoliberal ideology rests on the doctrine that open, competitive and deregulated markets are the most efficient mechanism for economic development and social betterment. Few researchers have explicitly linked neoliberalism to post-disaster recovery and rebuilding policies (for an exception, see Peck 2006). Our analysis of New York and New Orleans takes up this challenge. Specifically, our comparative analysis examines the ways in which neoliberal frameworks have filtered into major policy debates and constrained the formulation and implementation of post-disaster recovery programs. While our two cases may lack sufficient scope for statistical generalization, we believe our comparative analysis provides for a depth of description that is impossible in quantitative analyses. In short, the goal of our comparison is to search for similarity and variance, and identify underlying processes of neoliberal restructuring across the different cities and their post-disaster contexts.

We use a combination of data sources including government documents, planning reports and newspaper articles. First, we consulted the Congressional Research Service, the Office of the Federal Register, the National Archives and Records Administration, the Department of Homeland Security, the Federal Emergency Management Administration, the Army Corps of Engineers, the Department of Housing and Urban Development, and the Government Accountability Office for information on the content and organization of federal disaster legislation and policy. Second, we gathered data from the Association for a Better New York, the New York City Partnership, the Downtown Alliance, the Greater New Orleans, Inc., the New Orleans Business Council, and the Bring New Orleans Back Commission to identify the role of business elites and growth coalitions in the recovery and rebuilding process in New York and New Orleans. Third, we collected information from Reconstruction Watch, the Lower Manhattan Development Corporation, the Louisiana Recovery Administration, the Fiscal Policy Institute, New York State Department of Labor, the Brookings Institution, Entergy New Orleans, the Louisiana Gulf Opportunity Zone Business Guide, the Bureau of Governmental Research, and the National Low Income Housing Coalition, to examine the interaction of federal, state and local governments in the implementation of policies to promote urban rebuilding. Fourth, we reviewed the *New York Times*, the *Washington Post* and the *New Orleans Times-Picayune* newspapers for information on the socio-economic and political impact of 9/11 and 8/29, as well as the general publicity and media attention surrounding various urban rebuilding efforts and revitalization drives. This diverse range of information allowed for the triangulation of data sources to enhance validity and reliability.

Neoliberalism and Post-Disaster Restructuring

Neoliberalism is a political ideology that advocates market-based solutions to social problems and has influenced a range of policies to engineer economic growth, privatize public services and assets, and intensify inter-urban competition for capital investment. Reflecting a long history of writing on the ostensible benevolence of the "free market," neoliberalism rose to prominence during the 1970s and 80s as a major policy and regulatory response to economic crises that affected postwar U.S. and European societies. Stressing the rule of the market in place of state guidance and planning, proponents of neoliberal programs of restructuring argued for supply-side economics, international free trade, elimination of the welfare state, deregulation of major industries, reduction of corporate taxes, and greater capital mobility (Prasad 2006).

Peck and Tickell (2002, 2003) have argued that the transition to neoliberal policies has consisted of an initial "roll-back" phase of selective government withdrawal from macroeconomic regulation, deep funding cuts and policy retrenchment as well as a subsequent "roll-out" phase of proactive neoliberal practices designed to further private property rights, free trade and free markets. In addition to this temporal dimension, there is a spatial one with entrepreneurial cities increasingly operating as the space through which states, nations and global agencies are able to push through market reforms – a dynamic referred to as the "urbanization of neoliberalism." (Brenner and Theodore 2002)

In practice, neoliberalism is shot through with contradictions. The call for a smaller state is met with the growth of deficit spending, chronic debt and the state apparatus itself (Hackworth and Moriah 2006). Policies meant to liberate and "deregulate" markets actually "re-regulate" on behalf of business and reveal their capacity to foment economic crises, erode profits and paralyze markets (Antonio and Bonanno 2006; Harvey 2005; Prudham 2004). And significantly for our study, moments of crisis have presented the best opportunities to experiment with these contradictory and often unpopular forms of governance, and to do so with less public scrutiny and challenge (Klein 2007).

Little research links neoliberal restructuring to moments of urban crisis, unrest and disaster. Sociologists have argued that disasters can reinforce existing socio-economic inequalities and establish a pattern of chronic negative effects to individuals and families (Freudenburg 1997; Erikson 1976; Picou and Marshall 2007; Picou, Marshall and Gill 2004). Others have argued that disasters are a product of organizational, institutional and societal factors that contribute to system failure and expose different segments of society to the unequal consequences of risks (for an overview, see Tierney 2007). Our research builds on this critical sociological focus to examine the limitations and problems of using tax incentives, subsidies and other neoliberal economic development strategies to help cities recover from major disasters. Our concern in this article, therefore, is to connect contemporary theorizations of neoliberalism with a grounded comparison of post-disaster recovery and rebuilding so as to identify the contradictions between the ideology and the everyday reality and dysfunctional effects of market-centered policies and practices.

Using a comparative approach and a variety of data sources, we emphasize two pernicious effects of the neoliberal mode of disaster response. First, we argue that the reliance on private sector subsidies to implement disaster aid removes public spending from the realm of democratic accountability and oversight and thereby enables a misallocation of funds that fails to solve the problems caused by the disaster. The removal of "public benefit" standards from federal grants and tax exemptions not only fails to address the needs of low-income people but actually exacerbates inequalities by allowing corporations to use public resources and policy to aid private profit making. We also argue that market-centered policies by themselves do not promote sustainable post-disaster development because they reinforce and perpetuate the social problems of inter-urban competition and uneven spatial development. As such, the use of market-centered policies in New York and New Orleans should be seen not as long-term and coherent responses to urban disaster, but rather as deeply contradictory restructuring strategies that are intensifying the problems they seek to remedy.

Top-Down and Bottom-Up: Restructuring Disaster Aid in New York and New Orleans

New York and New Orleans share a history of market-centered political and economic restructuring that conditioned their recent redevelopment strategies (Gotham 2007; Greenberg 2008). Throughout the first half of the 20th century, both held a reputation as bastions of "new deal" civic liberalism and expansive government spending. Then, with the recession and federal retrenchment of the 1970s, and similar to other, older U.S. cities at that time, New York and New Orleans experienced massive and destabilizing fiscal crises. These crises forced both cities to seek aid from President Gerald R. Ford's conservative administration in Washington, D.C., and with this aid to agree to far-reaching reforms, including pro-business changes to the tax code and the imposition of austerity on public spending, which dismantled their liberal mode of governance. This major policy shift was facilitated at the local level by "crisis regimes" of state officials and business leaders, which were given emergency powers to manage city governments. Subsequently, New York and New Orleans became models of "urban entrepreneurialism," (Harvey 1989) using marketing and tax incentives to attract a new economy based in high-end services, luxury real estate and tourism. Accompanying this shift were a number of contradictory effects, including the creation of two tier economies that exacerbated income inequality and uneven development. Thus, by the time of the 9/11 and the 8/29 disasters, New York and New Orleans had had considerable experience, as well as cautionary lessons, to inform their new approach to post-crisis redevelopment.

As in the earlier period, the process of market-centered restructuring was driven by political forces at both the local and national scale. Officials of the George W. Bush administration operated on free-market assumptions that had been in place since President Ronald Reagan took office and had influenced Democratic and Republican administrations alike (i.e., government regulation and direct outlay programs were impediments to economic growth). The same philosophy reigned among elites at the local level. Building on post-crisis political formations of the 1970s and 80s, public private partnerships were rapidly deployed by economic elites and political officials to interface with the federal government.

In New York, the partnerships included the New York City Partnership and the Downtown Alliance. These business leaders immediately joined local politicians in lobbying the federal government to commit the $20 billion in aid that President George W. Bush promised after visiting "ground zero." (Kolker 2001) Much of this aid was uncontroversial – i.e., $8 billion in funds from FEMA and the Department of Transportation to repair destroyed infrastructure and aid recovery (GAO 2003). Differences soon emerged, however, over how the remaining $12 billion in economic aid should be structured. Using classic neoliberal language, Republican Congressman James T. Walsh, joined by NYCP and the state's Empire State Development Corporation, argued against simply creating "a new federal agency" and for "[flexibility in] attracting private capital for new investment." [1] (Wyatt and Fried 2003) Under the President's budget director Mitchell Daniels, the two optimal funding mechanisms were chosen: Community Development Block Grants and tax-exempt Private Activity Bonds, which were renamed "Liberty Bonds." Republican Governor George Pataki and Mayor Michael Bloomberg were given complete jurisdiction over the $8 billion in bonds. And the Lower Manhattan Development Corporation, a subsidiary of the Empire State Development Corporation was created to oversee $3.7 billion worth of block grants.

In New Orleans, a similar mobilization and lobbying effort took place. Partnerships included the preexisting Greater New Orleans, Inc. and the New Orleans Business Council, and the newly created Bring New Orleans Back Commission. A new agency, the Louisiana Recovery Administration, was created and explicitly modeled on the LMDC.[2]

Our analysis of the leadership, board composition and mission statements of the leading partnerships involved in redevelopment showed them to be overwhelmingly tied to business interests. On the LMDC's 13-member board, the chairman and five others represented business (finance, real estate and media), four members were economic development officials for the Giuliani and Pataki administrations, one was a lawyer for the Giuliani administration, and the remaining two represented the local community board and the construction unions.[3] The same business dominance was found with the two groups most closely tied to the LMDC, the Downtown Alliance and the NYCP.[4] In New Orleans, 14 of the 19 members of the BNOB Commission, and all members of the New Orleans Business Council and Greater New Orleans, Inc. were business owners, particularly representing the chemical, petroleum, real estate and tourism industries.

Ultimately, these business-led organizations were successful in partnering with federal officials and "rolling out" fundamental changes to PABs and CDBGs, the two major forms of post-disaster reconstruction aid made available. PABs were issued through the first pieces of legislation approved by Congress following 9/11 and 8/29: the Victims of Terrorism Tax Relief Act of 2001, the Job Creation and Worker Assistance Act of 2002, the Katrina Emergency Tax Relief Act of 2005, and the Gulf Opportunity Zone Act of 2005. While this legislation built upon 30 years of precedent, it also enacted a major innovation: the elimination of the "public benefit" provisions that such tax relief measures previously contained. Since the 1980s, the federal government has provided relief from taxes in the aftermath of disasters through PABs and "enterprise bonds" – the latter of which were designed to spur redevelopment in an underserved area, or "enterprise zone" designated by HUD.[5] In the two decades since enterprise zones have come into widespread use, they have met with considerable criticism, as researchers have found little evidence that they benefit the families and individuals in the zones (Herring, Bennett, Gills and Jenkins 1998; Oakley and Tsao 2006; Government Accountability Office 2006). Nonetheless, they have maintained the language of public benefit, with eligible facilities listed in the U.S. tax code including "privately owned and operated properties upon which the public depends," such as transportation facilities, public works facilities, affordable rental housing and electric and gas utilities.[6] Beginning with the federal tax relief acts, however, even these basic restrictions were removed, and tax-exemption was made available to *all developers* regardless of the "public benefit" of their projects.

Unprecedented waivers to CDBGs, the second major form of disaster relief used post 9/11 and 8/29, further enabled market-oriented restructuring. CDBGs represented one of the main forms of direct outlay still provided by the federal government in the neoliberal era. Established by Congress in 1974, the CDBG program was designed to provide flexible funds that states control, though historically grantees had to meet three HUD criteria: to provide "benefit to persons of low and moderate income," to help "prevent or eliminate slums or blight" through the creation of affordable housing and other infrastructure, or to meet "other urgent community development needs because existing conditions pose a serious and immediate threat to the health and welfare of the community."[7] HUD has typically allowed limited waivers to these criteria and to the federal laws that support them, often in the name of making it easier and faster for low-income people to apply for funds.

What is new since 9/11 and 8/29 is the sheer scale and scope of the waivers granted, as well as the degree to which these waivers undermine the original intent of the CDBG program. [8] Waivers for 9/11 and Katrina eliminated the first two HUD criteria – freeing grantees from providing broad "public benefit" or "housing development" for low-income people. Additional waivers targeted laws governing the program's checks and balances system or mechanisms for "grantee accountability" (i.e., performance reports) and "citizen participation" (i.e., public hearings). Taken together, these waivers made possible the creation of locally based granting authorities in each city: the LMDC and LRA – despite the fact that the use of such "subrecipients" in the past was found to "[increase] the risk of abuse of funds." (NARA 2006:7668) This change was justified by citing HUD's third, open-ended criterion: meeting "other urgent community development needs." As we found, such "urgent needs" were interpreted by the LMDC and LRA to apply to the business interests of powerful board members and their industries, and ultimately used to promote selective and narrowly targeted recovery that was de-linked from any comprehensive, long-term or equitable rebuilding plan.

The use of tax incentives to stimulate post-disaster recovery combined with waivers for HUD block grants is part of an overall trend to eschew targeted direct outlay and "entitlement" programs and privilege the private sector as the main mechanism for delivery of disaster aid, a trend that is consistent with the neoliberalization of government policy of the past three decades. Yet, while they should be viewed in this historical context, recent examples also represent significant turning point, eliminating public benefit standards and targeted relief for low-income people from post-disaster urban restructuring.

New York and 9/11

The attacks on New York City on 9/11 had economic consequences far beyond the 16-acre site of the World Trade Center. Approximately 40,000 jobs and 10 million square feet of office space were immediately lost. An additional 300,000 New Yorkers lost their jobs throughout the city as a result of street closures in Lower Manhattan and the broader downturn in the local economy. Officially, the national economy pulled out of recession at the end of 2001. But the city kept losing jobs through late 2003, when the number of unemployed remained at 265,000. Job loss was particularly severe for low- to moderate-income workers in the airlines, hotels, retail, securities and clothing manufacturing industries (Fiscal Policy Institute 2003). This was in keeping with the city's increasing dependence on the volatile sectors of finance and tourism, which has caused local downturns and recessions to last longer and affect more people and categories of workers when compared to the nation as a whole (McGeehan 2008).

With the destruction of this famous corporate headquarters came the impression that the greatest economic cost of 9/11 was borne by prominent firms and their high-income employees. Yet, when measured in total jobs and percent of revenue lost, the major blow of 9/11 was felt by low-wage workers and the businesses that employed them, whether in the towers, in the blocked off streets of Lower Manhattan or in related trades throughout the city. Overall, local reports showed that of the 100,000 jobs lost within a month after the attacks, 60 percent paid less than $11/hour, a rate that remained similar if not greater as total job losses rose (Fiscal Policy Institute 2001; Reconstruction Watch 2004). Nonetheless, low-income workers and small businesses were one of the lowest priorities in the post-9/11recovery plan. This had much to do with the funding mechanisms set up to disburse post-9/11 disaster aid.

Community Development Block Grants

Upon its creation, the LMDC sought and received a waiver on all income requirements and "public benefit standards" attached to CDBGs, including a complete waiver of the stipulation that 70 percent of funds go to low income people – a first in the history of the program (NARA 2002).[9] Restrictions on how the grants should be monitored and evaluated were also waived, including waivers on public hearings, "consultation [with] affected units of local government," and the preparation of performance reports (NARA 2002). It now was left to the press and the public, rather than due process, to report what ultimately occurred.

Results of this grant restructuring were sweeping. In the initial recovery phase, $2.4 billion was allocated, mainly in the form of Business Recovery Grants and Residential Recovery Grants. New York legislators originally sought to target BRGs to "small businesses," by which they envisioned "restaurants, retailers, and other small businesses, many of them dependent on the foot traffic that disappeared from Lower Manhattan after the attack."(Wyatt and Fried 2003) The ESDC AND LMDC, however, defined such businesses broadly as any company with fewer than 500 employees and with no restrictions on annual revenues. In addition, they chose to require no hard evidence of lost revenue for any business seeking compensation. An investigation by the *New York Times* and our own evaluation of the LMDC reports revealed the disturbing results of this lax formulation. Close to 40 percent of the BRGs went to major corporations with hundreds of employees, as well as individual financial traders and lawyers, all of whom represented only 15 percent of those affected. These firms received on average two times what small businesses received. And this is despite the fact that none of the former suffered great losses in the long run, while hundreds of the latter were put out of business entirely (LMDC 2002, 2004; Wyatt and Fried 2003). The largest employers also received multi-million dollar cash incentives in the form of RRGs to commit to Lower Manhattan for at least seven years, regardless of whether they intended to leave in the first place. Incentives included $40 million for the Bank of New York, $25 million for American Express, and $23 million for the New York Board of Trade (LMDC 2002; Hetter 2002) These RRGs, unbound by income targets, had perverse effects: landlords took advantage of tax breaks granted large corporate tenants by raising their rents and by evicting lower income tenants and small businesses to make room for those who could afford the higher rents. (U.S. House of Representatives 2006)

In the subsequent *rebuilding phase*, in which $1.3 billion of more discretionary funding was at stake, the opportunity for public input was delayed for two years by the lobbying efforts of Gov. Pataki, the Downtown Alliance and the NYCP. They sought to direct the entirety of the funding towards a $6 billion dollar rail link between Lower Manhattan, the suburbs and John F. Kennedy airport, which would have mainly benefited commuters, tourists and business travelers – not the local communities most affected by the disaster (Alliance for Downtown 2006). The proposal was finally jettisoned, yet the lobbying behind it created a formidable barrier for civic groups, small businesses and others trying to push their own broader priorities (U.S. House of Representatives 2006). For example, the allocation of grants for affordable housing and living wage jobs was vociferously supported at the limited number of public hearings that were held in 2003 (LMDC 2004). Yet in 2006, less than $50 million was approved for housing, and even this housing has yet to be built (New York City Independent Budget Office 2007). The LMDC promised it would help create jobs, yet never defined what type of jobs and for whom. A breakdown of $330 million in capital grants showed that such grants favored the wealthier financial districts and Tribeca over the Lower East Side and Chinatown, and in general that LMDC failed to consider equity at all in post-recovery job creation (LMDC 2004; U.S. House of Representatives 2006).

Liberty Bonds and the Liberty Zone

The "Liberty Bond program," created as part of the post-9/11 "Job Creation and Worker Assistance Act of 2002," enabled the Mayor and Governor to allocate up to $8 billion ($4 billion each) in tax-exempt PABs over 3.5 years. Ultimately $6 billion of this was spent.[10] Through the LB Program, the federal government did away with two regulations that historically constrained tax-exempt bonds: state ceilings and "public interest" requirements. This facilitated unregulated use of tax-exempt bonds that had not been possible since the pre-tax reform era of the 1970s.

The lifting of caps occurred mainly within the HUD designated "Liberty Zone." The zone was created using the language of Empowerment Zones – i.e., contiguous zones in need of a substantial infusion of investment capital. Yet unlike traditional zones, 25 percent of funds, or $2 billion, could also be spent within New York City at large. Also unprecedented was the sheer scale of the program. The $8 billion award was almost four times the total amount of all PABs disbursed *nationwide* over a similar period.[11] Most important were the waivers in how PABs could be allocated. First, PAB could be used to spur purely commercial development – in this case for private real estate and retail property – something never before considered "qualified" as it did not serve the "public interest."[12] Secondly, traditional "80/20" regulations governing rental housing – with 20 percent of units set aside for "low income" tenants for 15 years – were now waived. And finally, Liberty Bonds required no official public comment period, giving Pataki and Bloomberg even greater freedom to decide how these massive bonds would be allocated.

As a result of this restructuring, there was no incentive for real estate developers to pass along savings in financing costs to tenants. Rather, these developers – many among the largest in the nation – charged above market rates while benefiting from tax-free loans, thus receiving windfall profits at taxpayer expense.[13] Ultimately, no affordable housing was created, while many of the luxury projects that received tax credits could have been financed in other ways, forcing taxpayers to subsidize profitable private activity not requiring incentives. This also gave these projects an advantage over developers and landlords that didn't have access to PABs – particularly outside Manhattan – and created the perception of favoritism. Rather than need, the main criterion was "lost revenue," whether or not firms could provide proof that these losses were associated with 9/11 and whether or not businesses remained profitable after 9/11, had insurance, and/or could have made up these losses through other means (Wyatt and Fried 2003).

Who were the major beneficiaries? More than 40 percent of all bonds, or $2.4 billion, went to a single developer: Larry Silverstein, owner of the World Trade Center, to build new office towers on the site. The second largest beneficiary was Goldman Sachs, a profitable Wall Street firm based downtown for more than 130 years, which received $1.65 billion to finance a new 43-story, $2 billion headquarters when it threatened to leave for another Manhattan location. Meanwhile, outside downtown, $650 million of tax- exempt financing went to Bank of America for building a new tower on West 42nd Street, despite the fact that the company admitted publicly that it never intended to leave New York (Braun 2006). As for residential development, the bonds helped finance the largest luxury-housing boom in recent New York City history (Dunlap 2004). From 2001-2006, the residential population of Lower Manhattan increased 60 percent, and the average resident income shot up from average to among the highest in the New York City. With the assistance of LB subsidies, co-op prices in the financial district have climbed 50 percent since 2001, faster than any other part of the city over this period (Alliance for Downtown 2006; McGeehan 2007).

One might well question the need for massive subsidized investment in New York City's high-end commercial real estate as a solution to the post-9/11 economic crisis. We are reminded that 60 percent of those who suffered most in this period made $11/hour and were not eligible for these bonds. If nothing else, the post 9/11 aid package to New York City programs appears to have created a unique opportunity to prop up the Manhattan real estate market, and to do so without public oversight. Officials were empowered to structure multi-billion-dollar compensation programs without regard to need, without establishing whether compensated firms intended to leave in the first place, and without any significant public scrutiny. Ultimately, as a result of the emergency deregulations of the CDBG and Liberty Bond programs, New York City and State were able to use federal disaster aid in ways that abandoned the original intent of such funding: to serve the "public good" and to address the needs of low- to moderate-income people. This created precedents that were to be followed in the aftermath of Hurricane Katrina.

New Orleans and Hurricane Katrina

Since the devastation and destruction caused by Hurricane Katrina in August 2005, researchers have argued for the privatization of public services and greater government reliance on private corporations (i.e., Wal-Mart) to deliver resources and speed post-disaster recovery (for an overview and critique, see Peck 2006). Two policy arrangements adopted in the aftermath of Katrina reveal a new and increased reliance on the private sector to promote urban recovery. First, soon after Hurricane Katrina and following HUD recommendations, the state of Louisiana created the Louisiana Recovery Administration, a new public authority modeled after the LMDC, to assist in planning, coordination and revitalization efforts. Like the LMDC, the LRA was set up to operate outside the normal system of checks and balances, with a board composed of business owners and executives.[14] Since 2005, the LRA's funds have been mired in political conflict with only a small amount making their way to affected communities. As of August 2008, for example, less than half of the $33.2 billion allocated had been spent, according to the LRA.[15]

Second, in 2006, the state of Louisiana agreed to hire a Northern Virginia contractor, ICF International, to manage the "Road Home" Program, an arrangement whereby a private contractor controls and uses taxpayer dollars to award grants to homeowners to rebuild. In the three years since the Road Home Program began, ICF's stock price has skyrocketed, its revenue has doubled, and the average CEO annual salary at ICF is more than $1 million. But the program, the largest single housing recovery program in U.S. history, has been the subject of steady criticism from government officials and homeowners for failing to award grants fast enough, bogus calculations to appraise pre-storm home values, and slow progress in awarding grants to needy homeowners. In 2007, the LRA hired an outside consultant to revaluate the Road Home program and to propose remedies to cut through bureaucratic hand-ups.[16]

As these examples illustrate, the neoliberal doctrine of maximum market freedom and minimum state intervention ignores the fact that lack of oversight of the market-based approaches enables the misallocation of funds. In addition, the Road Home Program skews benefits toward homeowners and higher-income taxpayers and away from lower-income taxpayers who happen to be renters. Rather than ameliorating post-disaster problems, the neoliberal emphasis on privileging the private sector in delivering resources to affected communities benefits the affluent, bypasses low-income people, and continues to aggravate social inequalities.

Community Development Block Grants

The damage and destruction unleashed by Hurricane Katrina created new opportunities for elite actors and organized interests to champion controversial policy reforms that bolstered corporate profit making, enhanced place promotion and depressed wages. In 2006, HUD allowed Louisiana to use up to $30 million for advertising and marketing activities designed to support tourism. HUD has also granted a waiver to Louisiana to subsidize employers to pay people low wages. Under the regular CDBG program, assisted businesses are required to make sure 51 percent of new or retained jobs are available to lower-income people. HUD waived this requirement for Louisiana. A new standard was implemented. If the wage for a job is less than 80 percent of the area median income for an individual, the employee in that job will be considered low or moderate income.

In April 2007, the LRA and HUD approved CDBG funding of $171.7 million to Entergy New Orleans, the city's only Fortune 500 firm, to rebuild its gas and electricity infrastructure damaged by the hurricane. Despite the fact that the corporation amassed $10 billion in revenues in 2005 and had $29 billion in collective assets, the company threatened to file for bankruptcy if it did not receive the taxpayer subsidy (Entergy New Orleans 2006). On the one hand, the New Orleans City Council regulates Entergy to deliver public utilities to local residents who make up the customer base. On the other hand, as a publicly held company, Entergy answers first to its shareholders who want to maximize their profits. To that end Entergy has made broad use of limited liability laws to structure the company and its subsidiaries in a way that insulates shareholders from liabilities such as storms (King 2006). In response to the Hurricane Katrina disaster, for example, federal leaders and HUD made CDBG funds available to rescue a major corporation from bankruptcy. Thus, HUD has helped institutionalize a system in which taxpayers nationwide (including a company's own customers) pay the costs when a major disaster negatively affects a corporation's bottom line. Under these conditions, the neoliberal project of post-disaster rebuilding is no longer oriented simply towards the promotion of market-driven growth. Rather, federal policy is increasingly oriented toward the creation of new modes of crisis displacement that protect shareholders and powerful actors from the destabilizing effects of disasters.

In New Orleans, as in New York, HUD waived the CDBG "public benefit" restriction and limited local planning and administration. Activities such as advertisement to support tourism in the disaster area raise concerns that CDBG funds were used to develop tourism rather than rebuild the community. Moreover, these actions reduce transparency and public oversight, and may not fulfill program goals because recipients of the grant have unprecedented discretion and little accountability.

The GO Zone and the Contradictions of Post-Katrina Recovery

In December 2005, the U.S. Congress passed H.R. 4440, the Gulf Opportunity Zone Act of 2005 (the "GO Zone Act"), which provides tax and other financial incentives for businesses participating in the rebuilding and restoration of the region. As with Liberty Bonds, the GO Zone Act uses tax-exempt private activity bonds to finance reconstruction efforts. In Louisiana, the GO Zone Act encompasses 37 out of 64 parishes and authorizes the state government to issue approximately $7.9 billion in tax-exempt bonds to finance the acquisition, construction and renovation or rehabilitation of nonresidential – commercial – property alongside "qualified" low-income residential rental housing and public utility property. As in the case of post-9/11 New York, restrictions on tax-exempt debt have been modified by Congress in the GO Zone to enable private business owners and corporations to use tax-exempt bond financing for the development of office buildings, shopping centers, hotels, storage facilities, industrial properties and so forth. In short, the GO Zone represents an extension of the Liberty Zone program and uses market-centered strategies and tax incentives to prime the private sector to engage in post-disaster rebuilding. According to the Louisiana GO Zone website: "the essence of the program is simple: the government has established a series of financial incentives to promote investment by the private sector in Louisiana rather than embarking on a public building campaign financed solely with public funds."[17]

Today, New Orleans is embedded within a highly volatile and unstable socio-economic environment characterized by speculative movements of financial capital and intensifying intercity competition that is reinforced and perpetuated by federal programs. For years, HUD rules have prohibited job pirating or the use of CDBG funds to lure or attract a business and its jobs from one community to another community. Since 2007, HUD has waived its job pirating restrictions and allows the use of CDBG funds to assist businesses to relocate from another state or labor market area provided that the business was operating in the disaster GO Zone prior to the hurricanes. The effect of this policy waiver is to encourage cities and states to compete against one another to rebuild their communities. In Louisiana, HUD has waived eight CDBG statutory and regulatory requirements in order to approve a $28.5 million Research Commercialization project that will provide salary enhancements and stipends to attract out-of-state scholars and researchers to universities in the New Orleans region. The scientists lured from other states within the GO Zone will carry out speculative research that might lead to technological discoveries that can be sold commercially (regular CDBG law does not allow income payments or job pirating).[18] The project description also states it will provide "stipends for students, related training, purchase of critical equipment, [and] stipends for research professionals" though there is no indication how much money will be spent this way or what number or percentage of stipends will be targeted to lower income students (NARA 2007:10014). Overall, the neoliberal policy emphasis on using the tax code for disaster recovery puts pressure on cities in the GO Zone to pursue generous tax breaks and subsidies to attract investors. In addition, there is no incentive for cities to cooperate and identify ways to achieve shared collective goals in a context of heightened uncertainty and intensified competition for jobs (Stoker and Rich 2006).

The development of the GO Zone and related tax incentives reflect several limitations of using the tax code to promote urban recovery and rebuilding. One limitation is that tax incentives are temporary, short-lived and characterized by delays in getting assistance to individuals. Tax incentives and subsidies can take a long time to work as bureaucratic delays, administrative bottlenecks and implementation difficulties can slow progress. A more serious limitation is that the success of tax credits in generating private sector activity to revitalize and rebuild is dependent on a healthy and robust market for commercial and residential real estate. The recent downturn in the economy is having a debilitating effect on the recovery of the Gulf Coast as investors lose interest in purchasing tax credits and lenders pull out of projects. Developers finance the bulk of a project's costs by selling their tax credits to investors, who then use the credits to reduce their tax bills or leverage other investments. The market for tax credits began to plummet in February 2008 when the Federal National Mortgage Association (nicknamed Fannie Mae) and the Federal Home Loan Mortgage Company (nicknamed Freddie Mac), quasi-government entities that are two of the largest purchasers of low-income housing tax credits, decided they would reduce or stop buying tax credits because of their bad loan write-offs. With fewer buyers on the horizon, the economic downturn and financial crisis has forced developers forced to accept lower prices for their credits, so they can't raise as much money to pay for their projects.

In short, rising construction costs combined with an eroding market for housing credits are making it difficult for developers to raise money to finance the construction of affordable housing and other infrastructure projects that are essential to the long-term recovery and rebuilding of New Orleans. Federal rules require that all of the GO Zone's $168 million in tax credits to spur the development of 27,000 affordable and mixed-income housing units must be ready for occupancy by the end of 2010. As of April 2008, 35 of 85 projects in the New Orleans area had not yet closed on their financing, and may find it more difficult to secure financing. Those projects, including the replacements for the public housing developments that are being demolished, represent about 43 percent of the 10,335 units that are on the drawing board for the five parishes that make up the New Orleans area. "It's a tragedy on top of a tragedy," according to Milton Bailey, president of the Louisiana Housing Finance Agency, which awarded the tax credits to developers. "It's almost as if the twin disasters have been enhanced by the market disaster. We're really swimming uphill."(Mowbray 2008)

Conclusion

Delays in financing the rebuilding of New Orleans and subsidies to high-end real estate in Lower Manhattan are not merely accidental side effects, policy failures or unforeseen consequences of otherwise well-meaning government programs and actions. Nor are the problems of recovery and rebuilding the result of institutional ineffectiveness or bureaucratic sluggishness. Rather, the shortcomings of the government response to Hurricane Katrina and 9/11 are constitutive features of neoliberal government action and policy that privileges speculative financing and market rule to engineering urban recovery.

Since the 9/11 and 8/29 disasters, New York and New Orleans have become important laboratories for a variety of neoliberal redevelopment policies and tax subsidies directed to stimulating private investment. The use of enterprise zones and CDBGs reflects an entrenched ideology that the promotion of "free markets" is the most effective means of promoting urban recovery and rebuilding. This market-centered approach has been enforced "top-down" by a federal government averse to a strong public sector and direct outlay programs, and propagated by entrepreneurial city and state governments and public-private partnerships seeking to use post-disaster rebuilding as an opportunity to enhance their cities' competitiveness and business climate.

We do not argue that the private sector and markets have no legitimate role to play in post-disaster rebuilding efforts. Rather, our concern has been the manner in which post-9/11 and post-8/29 aid reflected and helped legitimate neoliberalism as an ideology guiding government response to disasters. Many scholars have noted that neoliberal principles are the basis of U.S. policy making in a variety of institutional realms including health care, banking and finance, national security and defense, foreign policy, and environmental regulation, among others (Antonio and Bonanno 2006; Brenner and Theodor 2002; Peck and Tickell 2002). Our research finds that this is also true of disaster response. Indeed for New York and New Orleans, maximizing the reach and frequency of market transactions has become the litmus test of urban recovery. As a result, tax incentive programs to aid the private sector in its profit-making pursuits are now the master framework for revitalizing disaster-impacted communities in the United States.

Hence, in the present context, urban recovery and rebuilding in New York and New Orleans should be seen as a contradictory process of market-driven, socio-spatial transformation that is aggravating inequalities and impeding community recovery efforts. Neoliberalism champions the free market and decries state regulation, yet proponents often employ direct state intervention on behalf of entrepreneurs and corporations to bolster markets, an orientation that may reward parochial interests at the expense of the public good. A major assumption of PABs, EZs and CDBGs is that these economic development tools will promote new investment and create jobs that will benefit the city as a whole. However, in practice, we have found that tax incentives and subsidies are awarded in an inequitable fashion, going disproportionately to large firms and high-income residents, with little to no benefit for low- and moderate-income people.

What's more, the implementation of disaster relief through enterprise zones disadvantages those with low or no income, who cannot take advantage of tax relief, and further skews benefits toward corporations and higher income taxpayers.

Finally, market-centered policies remove public accountability and oversight from the decision-making and implementation process and thereby create highly inequitable effects that impede comprehensive, long-term and sustainable rebuilding. Such inequity will likely continue unless there is a significant shift in the priorities and oversight of post-disaster recovery efforts, and in the aims and measures of urban revitalization more broadly.

Notes

1. A delegation led by Democratic Sen. Hillary Clinton sought to create an "Office of World Trade Center Attack Claims" within FEMA to reimburse affected businesses and individuals directly. See: Senate Bill 1624, Nov. 1, 2001.

2. On the association between the LMDC and LRA, see HUD, Feb. 13, 2006. P. 7667.

3. On the creation of the LMDC by HUD, see National Archives and Records Administration, Jan. 28, 2002. For the original board composition see LMDC, 2001. For extensive biographies of the board members, see Reconstruction Watch, February 2002.

4. In New York, the Downtown Alliance champions itself as an "advocate for business and property owners" interested in enhancing New York City "as a world-class destination for companies, workers, residents and visitors" (http://www.downtownny.com/aboutus/who/). The New York City Partnership states that the organization is "comprised of a select group of two hundred CEOs ("Partners") from New York City's top corporate, investment and entrepreneurial firms" (http://www.pfnyc.org/about.html).

5. As a result of widespread abuses of tax-exempt bonds in the 1970s, Congress imposed new restrictions – including annual caps on PABs available to each state, and "public use" restrictions on "qualified," tax-exempt facilities in general -- that were codified in the Tax Reform Act of 1986.

6. U.S. House of Representatives. Joint Committee on Taxation. General Explanation of the Revenue Provisions of the Deficit Reduction Act of 1984 (H.R. 4170, 98th Congress; Public Law 98-369). Dec. 31, 1984. P. 931.

7. See HUD's CDBG Disaster Recovery Assistance website: www.hud.gov/offices/cpd/communitydevelopment/programs/drsi/.

8. Federal waivers are printed in the *Federal Register*, published by the National Archives and Records Administration. For recent CBDG waivers, see: NARA, Jan. 28, 2002; Feb. 7, 2002; Feb. 13, 2006; and March 6, 2007.

9. Previous to 9/11, CDBG income targeting requirements have only been modified, and even then only on rare occasions and to a slight degree. In response to the Midwest floods of 1998 and the Florida hurricanes of 2004, the income-targeting requirement was lowered to 50 percent. See: Boyd, April 25, 2006. According to available evidence in the *Federal Register*, they were never been completely waived before 9/11.

10. LMDC. July 29, 2004. "Press Release: Governor Pataki, Mayor Bloomberg Hail President Bush's Support of Tax Conversion Proposal to Re-Direct Federal September 11 Aid" (http://www.renewnyc.com/displaynews.aspx?newsid=270756c8-9ccd-4cff-b78b-114dea334472).

11. For national figures on the total amount of PABs, see the statistics page on the IRS.gov, Table 7: "Volume of Private Activity Bonds by Type, Term, and Issue Year, 1996-2002."

12. Allowable uses for Liberty Bonds were restricted to the "cost of acquisition, construction, reconstruction, and renovation of commercial real estate, residential rental property and public utility property located in the liberty Zone." Thus they allowed for, indeed targeted, *commercial* office development for the first time, both within the Liberty Zone (where preference was given to this purpose) and beyond (where that was the exclusive use for such bonds).

13. For detailed evidence of this, see the testimony before Congress of Bettina Damiani of Good Jobs New York and John Wang of Asian American Business Development Center. (Committee on Homeland Security 2006)

14. As of September 2008, 11 out of 12 members of the Board of Directors of the Louisiana Recovery Authority are business owners and executives (http://lra.louisiana.gov/index.cfm?md=pagebuilder&tmp=home&pid=87), and 14 out of 27 former members of the LRA are business owners and executives (http://lra.louisiana.gov/index.cfm?md=pagebuilder&tmp=home&pid=83).

15. Accessed Oct. 8, 2008 at: http://lra.louisiana.gov/assets/docs/searchable/Quarterly%20Reports/LRAJuly08QuarterlyReport.pdf.

16. Goldfarb, Zachary. Aug. 29, 2007. "Va. Firm Grows Fast, But Katrina Aid Lags." *Washington Post*. P. D1.

17. The Louisiana Gulf Opportunity Zone Business Guide (http://www.gozoneguide.com/story_1.html).

18. National Low Income Housing Coalition. March 9, 2007. "Third Set of CDBG Disaster Waivers Further Dilutes Low Income Benefit." *Hurricane Recovery* 12:10. www.nlihc.org.

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